

Message Text

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FSE
EXIMBANK

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TO AMEMBASSY BRASILIA PRIORITY
INFO AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

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ATTN: CIRO DE FALCO

E.O. 11652: N/A

TAGS: BPRO

SUBJECT: COOPERATIVE FINANCING FACILITY (CFF PROGRAM)

ON JUNE 28, 1977, EXIMBANK CONDUCTED ITS ANNUAL REVIEW
OF THE COOPERATIVE FINANCING FACILITY (CFF PROGRAM).

AS A RESULT OF THIS REVIEW, EXIMBANK HAS AMENDED THE
PROGRAM WORLDWIDE AS FOLLOWS:

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- INDIVIDUAL BUYERS UNDER THE CFF PROGRAM WILL NO
LONGER BE SUBJECT TO THE U.S. DOLS 1,000,000 AGGREGATE
CONTRACT VALUE LIMITATION IMPOSED ON THE PROGRAM JULY 1,
1976. EXIMBANK'S LETTER TO THE BRAZILIAN BANKS DATED
JUNE 7, 1976 ESTABLISHED THIS GUIDELINE.

- SINCE EXIMBANK'S OBJECTIVE UNDER THE CFF IS TO

FINANCE SMALL AND MEDIUM-SIZED PURCHASERS, EXPORT SALES TO WELL-KNOWN LARGE PURCHASERS OR GOVERNMENT ENTITIES MAY BE REJECTED FOR CFF FINANCING ON A CASE-BY-CASE BASIS.

EXIMBANK'S OTHER PROGRAM GUIDELINES REMAIN UNCHANGED.

EXIMBANK REQUESTS EMBASSY ASSISTANCE IN DISCUSSING THE

THE FOLLOWING ISSUES IN AN EXPLORATORY MANNER WITH DR. ANTONIO DE PAUDA SEIXAS, GERENTE FIRCE DIVISION, CENTRAL BANK.

1. IN BRAZIL EXIMBANK LENDS 85 PERCENT OF THE CONTRACT VALUE TO BRAZILIAN INVESTMENT BANKS WHICH ISSUE TWO PROMISSORY NOTES (A AND B) PAYABLE TO EXIMBANK EACH IN THE AMOUNT 42.5 PERCENT OF THE CONTRACT VALUE. NOTE A BEARS THE EXIMBANK RATE OF 8 PERCENT AND NOTE B BEARS A FLOATING RATE AGREED UPON BETWEEN THE BRAZILIAN INVESTMENT BANK AND THE PARTICIPATING BANK IN THE U.S. WHICH IS ALSO EXIMBANK'S AGENT FOR THE TRANSACTION. THIS AGENT BANK DISBURSES 85 PERCENT OF THE CONTRACT VALUE FOR WHICH EXIMBANK REIMBURSES ONE HALF OR 42.5 PERCENT OF THE CONTRACT VALUE AND ALSO ISSUES A CERTIFICATE OF LOAN PARTICIPATION (COLP) FOR THE REMAINING 42.5 PERCENT WHICH IS UNCLASSIFIED

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GUARANTEED BY EXIMBANK. SINCE BOTH THE A AND B NOTES ARE PAYABLE TO EXIMBANK AND EXIMBANK INTEREST INCOME IS NOT TAXED IN BRAZIL, THE PARTICIPATING BANK DOES NOT PAY TAX ON ITS SHARE OF THE INCOME. THE PARTICIPATING BANK IS ALSO EXIMBANK'S AGENT FOR COLLECTING PRINCIPAL AND INTEREST DUE ON ENTIRE LOAN, RETAINING ITS SHARE OF INTEREST AND PRINCIPAL AND REMITTING EXIMBANK'S SHARE TO EXIMBANK.

THIS MECHANISM IS UNIQUE TO BRAZIL AND AS A RESULT OF EXIMBANK'S 85 PERCENT LOAN, THE ENTIRE INTEREST EARNED IN BRAZIL IS NOT REPEAR NOT SUBJECT TO CENTRAL BANK WITHHOLDING TAX. THIS EXEMPTION TO THE WITHHOLDING TAX IS ESPECIALLY IMPORTANT TO OUR U.S. BANK AGENTS AND THE U.S. EXPORTERS.

EXIMBANK DOES NOT WISH TO LOSE THIS TAX EXEMPTION STATUS ON THE HALF OF ITS LOAN SOLD AS A COLP BUT FINDS IT DIFFICULT TO JUSTIFY GUARANTEEING BRAZILIAN BANK REPAYMENTS TO OUR U.S. AGENT BANKS UNDER COLP AGREEMENTS SINCE U.S. BANKS GENERALLY WILL LEND MEDIUM-TERM FUNDS TO BRAZILIAN INVESTMENT BANKS WITHOUT U.S. GOVERNMENT GUARANTEE. WE THEREFORE REQUEST THAT YOU EXPLORE WITH DR. SEIXAS THE TAX CONSEQUENCES OF THE REMOVAL OF EXIM-

BANK'S GUARANTEE OF THE COLP. IN OUR OPINION THIS CHANGE IN THE BRAZILIAN CFF MECHANISM SHOULD HAVE LITTLE OR NO EFFECT ON HOW THE CENTRAL BANK VIEWS EXIMBANK'S LOANS TO THE INVESTMENT BANK FOR WITHHOLDING TAX PURPOSES.

ANOTHER CONSIDERATION IS THAT SUCH A CHANGE IS LIKELY TO INCREASE THE PROMISSORY NOTE B INTEREST RATE BECAUSE U.S. AGENT BANKS WILL BE AT RISK FOR THE FULL AMOUNT OF SUCH NOTE. HOWEVER, THE INCREASE IN RATE MAY BE PARTIALLY OFFSET WITH THE ELIMINATION OF EXIMBANK'S THREE QUARTER

PERCENT GUARANTEE FEE WHICH IS PRESENTLY INCLUDED IN THE PROMISSORY NOTE B INTEREST RATE TO THE BRAZILIAN BANKS.
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AS STATED EARLIER, EXIMBANK DOES NOT WISH TO LOSE THE TAX EXEMPTION OR IN ANY OTHER WAY DISRUPT OUR EXCELLENT RAPORT WITH THE CENTRAL BANK AND BRAZILIAN INVESTMENT BANKS.

2. UNDER EXIMBANK'S GUARANTEE PROGRAM, EXIMBANK IS NOW PREPARED TO ISSUE ITS GUARANTEE TO U.S. BANKS TO SUPPORT THEIR MEDIUM-TERM CREDIT LINES TO FOREIGN BANKS. EXIMBANK HAS RECENTLY DISCUSSED THIS FINANCE MECHANISM WITH MR. JAMES BOTTS, DEPUTY DIRECTOR, INTERNATIONAL BANKING DEPARTMENT, BANCO DO COMMERIO INDUSTRIA DE SAO PAULO S.A. MR. BOTTS CONCLUDED THAT UNDER FIRCE COMMUNICATION NO. 26, COMMERCIAL BANKS AS WELL AS INVESTMENT BANKS COULD REGISTER SUCH U.S. CREDIT LINES WITH THE CENTRAL BANK; SIMILAR TO THE REGISTRATION OF THE CFF CREDIT LINES.

PLEASE CONFIRM WITH DR. SEIXAS WHETHER COMMERCIAL BANKS AND INVESTMENT BANKS ARE IN FACT ELIGIBLE TO PARTICIPATE IN THIS PROGRAM UNDER FIRCE 26. UNDER THIS PROGRAM EXIMBANK WOULD BE ABLE TO INCREASE ITS BUSINESS WITH THE COMMERCIAL BANKS WHICH ARE IN-ELIGIBLE TO USE THE CFF. IN ADDITION, PLEASE EXPLORE WITH DR. SEIXAS WHETHER THIS FINANCE MECHANISM WOULD BE ATTRACTIVE TO THE COMMERCIAL BANKS. UNDER THE BANK GUARANTEE PROGRAM HOWEVER, A U.S. BANK MAKES APPLICATION TO EXIMBANK NOT THE BRAZILIAN BANK.

WOULD APPRECIATE YOUR COMMENTS AS WELL AS THOSE OF DR. SEIXAS AS SOON AS POSSIBLE. NO CFF REPRESENTATIVE WILL VISIT BRAZIL IN AUGUST. VANCE

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